

ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

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Arizona Corporation Commission

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
TRICO ELECTRIC COOPERATIVE, INC., AN  
ARIZONA NONPROFIT CORPORATION, FOR  
(1) APPROVAL OF NET METERING TARIFFS;  
AND (2) PARTIAL WAIVER OF THE NET  
METERING RULES.

) DOCKET NO. E-01461A-15-0057

**TRICO'S BRIEF  
ON PROCESS ISSUES**

Trico Electric Cooperative, Inc., an Arizona member-owned nonprofit corporation, ("Trico" or "Company"), through undersigned counsel, submits its brief on the two issues set forth in the April 3, 2015 procedural order in this docket. Neither the consideration of Trico's proposed net metering tariff for future distributed generation ("DG") members nor the updating of the avoided cost in the current net metering tariff must be considered or approved in a rate case. The overall interest of Trico's members, as well as due process, supports having both matters determined by the Commission in this docket.

Trico's member-elected board unanimously decided to file the application in this docket to promptly and proactively address the dramatic increase in lost revenues intended to cover its fixed costs and the related shifting of fixed cost recovery to non-DG members. The rapidly increasing cost shift is creating unacceptable inequities in paying for Trico's grid. In pursuing this application, Trico seeks to:

1. Meet its obligation to treat all Trico members as equitably as possible;
2. Avoid disrupting the economic commitments and expectations that its existing DG members have in existing DG systems;

1 3. Continue to support deployment of distributed solar generation through a net metering  
2 subsidy at a level that balances the long-term development of distributed solar in Trico's  
3 service area with the short-term cost to Trico's non-DG members; and

4 4. Maintain Trico's financial stability and ability to meet its financial obligations.

5 Trico's board believes that the relief sought in this docket meets those goals and balances the  
6 interests of the Trico members in a way that best serves its members as a whole. Moreover, timely  
7 relief in this docket will allow Trico to meet these objectives. If the cost shift becomes too great,  
8 it may be impossible to equitably balance the interests of the Trico members, such as  
9 grandfathering existing DG members under the current net metering tariff.

10 Therefore, in order to avoid exacerbating the challenges facing it, Trico seeks to have this  
11 docket -- and the uncertainty surrounding the issue -- resolved promptly. This docket will provide  
12 a more timely resolution than a rate case that has not yet been prepared or filed.

13 **A. Trico's Current Net Metering Tariff.**

14 Trico's current net metering tariff was not approved in a rate case. Rather, it was approved  
15 in a stand-alone docket in Decision No. 71462 (January 26, 2010).

16 Moreover, the current net metering tariff was approved *after* Trico's most recent rate case  
17 (based on a 2007 test year) was decided.<sup>1</sup> Decision No. 71462 did address fair value in the context  
18 of the cost of equipment for net metering service and a related administrative charge being  
19 requested in the tariff. The Commission found that the equipment and related administrative  
20 charge would have no significant impact on Trico's revenue, fair value rate base or rate of return.

21 Trico's current net metering tariff has not been modified since its initial approval in  
22 Decision No. 71462.

23 **B. The Effect of Trico's Current Net Metering Tariff.**

24 Trico is now experiencing a substantial increase in the number of members interconnecting  
25 distributed generation, and rooftop solar facilities in particular. The number of applications to  
26 interconnect DG systems with Trico increased from 160 in 2013 to 465 in 2014 -- almost a  
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<sup>1</sup> Decision No. 71230 (August 6, 2009).

1 threefold increase. The significant increase was more pronounced in the second half of 2014 -- in  
2 December 2014 alone, Trico received 114 applications. Trico received 75 applications in January  
3 2015 and 174 in February 2015. The number of applications in the first two months of 2015 is  
4 more than in all of 2013.

5 The rapid rise in DG systems and net metering has rapidly increased the amount of  
6 unrecovered fixed costs for Trico. Trico's unrecovered fixed costs due to net metering have been  
7 increasing at an alarming rate. In 2009, Trico determined that the annual unrecovered fixed costs  
8 due to net metering were approximately \$142,000.<sup>2</sup> In 2013, that figure was approximately  
9 \$550,000; but has now jumped to over \$1.0 million. Trico has seen a continuing acceleration in  
10 the amount of unrecovered fixed costs due to the increased number of solar rooftop systems.  
11 About half of these costs (associated with generation and transmission) are shifted to non-DG  
12 members through Trico's Power Cost Adjustor while the other half (associated with distribution)  
13 cannot currently be recovered by Trico through existing rates.

14 Equally concerning is that the unrecovered cost figure will continue to rise for the  
15 foreseeable future absent some fundamental change in either Trico's rate design, or its net  
16 metering tariff. If Trico continued to receive 100 applications a month for all of 2015 (1200  
17 applications), it would suffer approximately \$1,200,000 in additional lost revenues over and above  
18 what is currently being lost.<sup>3</sup> To put this in context, that would be approximately the equivalent of  
19 TEP receiving 12,000 applications resulting in \$12,000,000 of additional lost revenues or APS  
20 receiving 30,000 applications resulting in additional \$30,000,000 of lost revenues.<sup>4</sup>

21 **C. Modification of the Net Metering Tariff for Future Customers Does Not Require a**  
22 **Rate Case.**

23 As noted above, Trico's current net metering tariff was approved outside of a rate case.  
24 Indeed, it was approved well after Trico's most recent rate case. In as much as it was not

25 <sup>2</sup> Decision No. 72253 at Finding of Fact 24.

26 <sup>3</sup> Combined with the existing systems of 1077, the total lost fixed cost revenues for Trico would approach  
\$2,500,000 on an annual basis.

27 <sup>4</sup> Trico has approximately 40,000 customers, TEP has approximately 400,000 customers and APS has over  
1,000,000 customers.

1 approved in a rate case, any modification to the net metering tariff also does not need to be  
2 approved in a rate case.

3 The impact of the existing tariff has been to erode Trico's revenues, particularly with  
4 respect to its recovery of fixed costs. This under-recovery interferes with Trico's opportunity to  
5 earn its authorized revenue requirement and rate of return, as set in its last rate case. The proposed  
6 net metering tariff is intended to slow the erosion of – but not increase -- Trico's revenues. Even  
7 with the proposed net metering tariff, Trico will continue to suffer a significant erosion of its  
8 revenue and rate of return – just not as severe.

9 Finally, this attempt to slow the erosion of revenue simply does not implicate *Scates*. As  
10 the Commission has recently noted, "*Scates* does not require a full rate case every time the  
11 Commission changes rates; instead, it merely requires the Commission to ascertain the utility's  
12 fair value and to consider the impact of any rate increase upon the utility's rate of return."<sup>5</sup> Trico  
13 is not seeking a rate increase. The modification to the existing tariff will not result in an overall  
14 increase in Trico's rate of return to a level above that authorized in its last rate case. The  
15 modification also will not affect Trico's fair value because no additional plant is at issue. In sum,  
16 there is no investment, there is no rate increase and there is no increase to Trico's rate of return  
17 above that authorized in Trico's last rate case.<sup>6</sup>

18 **D. Modification of the Avoided Cost Rate in the Current Net Metering Tariff Does**  
19 **Not Require a Rate Case.**

20 The Commission has modified the avoided cost rate in net metering tariffs numerous times  
21 for several different utilities. Those modifications have not been done in a rate case. For example,  
22 TEP's avoided cost rate has been adjusted annually in a stand-alone docket.<sup>7</sup> Mohave Electric

23 <sup>5</sup> Decision No. 74202 (December 3, 2013), Finding of Fact 101.

24 <sup>6</sup> In *Scates*, the Commission granted a phone company a \$4.9 million rate increase. In overturning that  
25 approval, the court of appeals stated that "[t]he Commission approved the increase without any  
26 examination of the costs of the utility apart from the affected services, without any determination of the  
27 utility's investment, and without any inquiry into the effect of this substantial increase upon Mountain  
States' rate of return on that investment." *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 533, 578 P.2d  
612, 614 (Ct. App. 1978).

<sup>7</sup> See Decision No. 74973 (March 16, 2015) (approving an avoided cost rate of \$0.02353/kWh for TEP's  
net metering tariff).

1 Cooperative and Sulphur Springs Electric Cooperative have had their avoided cost rate adjusted in  
2 stand-alone dockets.<sup>8</sup>

3 Such modifications clearly were not required to be done in a rate case. The updates to the  
4 avoided cost rates did not implicate the fair value for the utilities or result in any increase in the  
5 utilities' authorized rates of return.

6 Trico's proposed modification of its avoided cost rate for its net metering tariff also does  
7 not need to be done in a rate case.

8 **E. Due Process and the Public Interest Require Consideration of Trico's Application**  
9 **in this Docket.**

10 Because modification of its net metering tariff need not be done only in a rate case, Trico  
11 has the right to pursue its application at this time. Trico understands that this docket may limit the  
12 nature of the relief available to it, but the Trico board believes that the proposed relief equitably  
13 balances the interests of its members.

14 Moreover, the Commission already has acknowledged the lost fixed cost recovery and the  
15 cost shifting impacts of net metering.<sup>9</sup> The Commission also has recognized that delaying the  
16 mitigation of the lost revenues and the related cost shift would not serve the public interest.<sup>10</sup>  
17 Waiting to consider this issue in a full rate case here would delay resolution significantly (up to 18  
18 months), even assuming Trico could prepare and file a rate case in the near future. Trico's  
19 members also should not be required to incur the significant expense of a rate case when the lost  
20 revenue and related cost shift can be significantly mitigated in this docket at this time.

21 Trico submits that a prompt resolution of the requested tariff modification serves both the  
22 best interests of its members as a whole and the public interest. First, prompt resolution of the  
23 application will mitigate the uncertainty over net metering in Trico's service area. Net metering  
24 currently provides a significant subsidy for DG installations that is factored into DG system

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26 <sup>8</sup> See, e.g., Decision No. 74693 (August 12, 2014) (approving revised avoided cost rate of \$0.0325/kWh  
for Mohave Electric); Decision No. 72552 (August 24, 2011) (approving a revised avoided cost rate of  
\$0.0367/kWh for Sulphur Springs Electric).

27 <sup>9</sup> Decision No. 74202, Finding of Fact 49.

<sup>10</sup> Decision No. 74202, Findings of Fact 99, 106.

1 pricing, leasing models and estimated "payback" periods. A change in the subsidy likely changes  
2 the calculations. Once the net metering proposal is resolved, Trico members will be in a better  
3 position to receive and understand options for installing DG systems. The solar contractors also  
4 will be able to operate in a more stable environment.

5 Second, prompt resolution also can act to mitigate further increases in the lost fixed  
6 revenue recovery and cost shifting. If resolution of this docket takes many months and Trico  
7 interconnects a significant number of new DG members in the interim, there will also be  
8 significant lost revenue and cost shifting in the interim until those new DG members can be  
9 shifted to the new net metering tariff.<sup>11</sup>

10 Third, Trico seeks to ensure that its members with existing DG retain the economic  
11 benefits they expected at the time they acquired their DG system. As a result, Trico intends to  
12 grandfather such members into the current net metering tariff. However, if the lost revenues and  
13 related cost shift become too great, it may not be possible to do so without unfairly harming non-  
14 DG members.

15 Finally, the proposed net metering tariff is intended to slow the erosion of Trico's  
16 revenues. Even with the proposed net metering tariff, Trico will continue to suffer a significant  
17 erosion of its revenue and rate of return. If the issue is not promptly resolved and that erosion is  
18 allowed to accelerate, Trico's financial stability may be challenged.

19 In sum, Trico's member-elected board has concluded that the relief sought in this docket is  
20 in the best interests of the member-owned cooperative and its members as a whole and requests a  
21 prompt resolution of the application at this time.

22 **E. Relief Requested.**

23 Trico requests that the Commission continue to process its application in this docket and  
24 set a procedural schedule for a hearing.

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26  
27 <sup>11</sup> Trico reiterates that *even under the new net metering tariff* Trico will continue to suffer lost fixed cost recovery and some of those lost fixed costs will be shifted to non-DG Members.

1 RESPECTFULLY SUBMITTED this 10th day of April, 2015.

2 Trico Electric Cooperative, Inc.

3 By 

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